April 8, 2015

Mr. Denis Kelly
Regional Clerk
Regional Corporate Services Department
Administrative Centre
17250 Yonge Street, 4th Floor
Newmarket, Ontario
L3Y 6Z1

Dear Mr. Kelly:

The City of Vaughan wishes to advise that preliminary work to develop criteria for a Community Improvement Plan (CIP) for the Vaughan Metropolitan Centre and other intensifications areas has begun. In order to move forward with a Community Improvement Plan, the City of Vaughan has retained Hemson Consulting Ltd. and Urban Strategies Inc. to carry out a study on how the City can develop and implement a CIP. The attached memorandum serves to provide you with an outline of the work that has been completed to date on the City of Vaughan's CIP study, and to seek participation from York Region through a similar CIP framework.

I would like to encourage you to consider the information in the attached memorandum as part of your deliberations on improving the competitiveness of office markets within the Region's Centres and Corridors.

Sincerely,

Jennifer Ladouceur
Director of Economic Development

Attachment

C Barbara Cribbett, Interim City Manager
Tim Simmonds, Executive Director, Office of the City Manager
John Henry, Commissioner of Finance & City Treasurer
John MacKenzie, Commissioner of Planning
Paul Jankowski, Commissioner of Engineering & Public Works

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MEMORANDUM

To: City of Vaughan:
Mr. Tim Simmonds, Executive Director
Ms. Jennifer Ladouceur, Director of Economic Development
Mr. Lloyd Noronha, Director, Development Finance & Investments

From: John Hughes and Jason Bevan, Hemson Consulting Ltd.
Pino DiMascio and Mirej Vasic, Urban Strategies Inc.

Date: April 7, 2015

Re: Regional Participation in Office-focused Community Improvement Plan

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Starting in 2014 the City of Vaughan began work on developing criteria for a Community Improvement Plan (CIP) focused on attracting major office development in the Vaughan Metropolitan Centre (VMC) and select intensification areas. Hemson Consulting Ltd. and Urban Strategies Inc. were retained to build on the City's draft CIP framework, conduct stakeholder consultation and to prepare the formal documentation required under provincial legislation. Through the course of work already undertaken as part of this study, it is clear Regional participation through a similar CIP framework would make the program more robust and improve the likelihood of attracting more major office uses to the VMC in the short-term.

A. WHY ADOPT A CIP PROGRAM?

Adopting a CIP Program would play an important role in fulfilling the objectives of the York Region Official Plan for its Regional Centres. The York Region Official Plan states that Regional Centres, such as the VMC, should develop into downtowns with the highest concentration and greatest mix of uses in the Region, and a range of employment and housing opportunities oriented towards rapid transit hubs.

According to Section 5.4.20, this diverse mix of uses will create vibrant and complete communities for living, working, shopping and entertainment within the Regional Centre.

It is well understood the Region must balance any short-term revenue losses resulting from incentives, however, if office incentives were ever to be considered for an area of the Region, the VMC may be the most appropriate location. A few of the numerous Regional and Provincial objectives achieved by attracting offices uses to the VMC include:

- Successful urban areas often contain a cluster of major office buildings, attracting several early adopters at the outset will likely in-itself act as an attractant for future development.
- Office employees are an essential component of transit ridership and can allow for two way peak period movement on the York-Spadina subway and VIVA transit lines.
- Advance the mixed-use nature of the VMC creating activity at all times of the day with residential, office and retail uses and high-quality amenities available within walking distance.

The objective for a mix of uses has not yet been achieved as the City has received applications for residential development in the order of 8,500 total units. Calloway REIT and Liberty Developments have planned office developments, but development applications for office uses have not occurred at a sufficient rate to match the residential interest.

Through consultation with stakeholders and a review of the Region's studies, two local financial factors have been identified which impede office development in the VMC. Firstly, VMC land values are comparatively high due to competition with existing uses and greater demand for new residential development. Secondly, the higher cost of structured parking development, water table issues and higher engineering and design costs associated with developing in urban, rather than suburban locations, must be overcome. Additionally, the City of Vaughan is starting with a less established major office base compared to Mississauga, Markham and North York, for example.

B. CITY'S PROPOSED CIP OFFICE PROGRAM IS DESIGNED TO ESTABLISH AN INITIAL BASE OF OFFICES IN THE VMC

The City faces many of the same financial challenges as the Region in that short-term revenue losses from CIP grants or discounts will have to be recovered through other sources. This is why the City has focused its program on attracting early adopters with program cessation when the identified goals of the CIP have been achieved. Key highlights of the City's proposed program for major offices are shown below:

1. Administration

- Major offices are defined as developments with over 100,000 square feet (9,290 square metres) of gross floor area.
- The incentives would be limited to five years or the first 1.5 million square feet (139,400 square metres) of major office development to qualify under the CIP, whichever comes sooner.
- The incentives would also apply retroactively to eligible developments with building permits issued on or after January 1, 2014.

2. Tax Increment Equivalent Grants (TIEG)

A sampling of recently constructed offices in York Region and North York was used to estimate a value of $319.5 million in new assessment associated with 1.5 million square feet of gross floor area (the City's cap). The TIEG would start with a 70 per cent grant for the first year declining proportionally over a ten-year period:

Year	1	2	3	4	5	6	7	8	9	10	10-Year
Grant Amount	70%	63%	56%	49%	42%	35%	28%	21%	14%	7%	**39%**
Net Taxes	30%	37%	44%	51%	58%	65%	72%	79%	86%	93%	**61%**
Grant Amount	$0.6M	$0.5M	$0.5M	$0.4M	$0.4M	$0.3M	$0.2M	$0.2M	$0.1M	$0.1M	**$3.3M**
Net Taxes	$0.3M	$0.3M	$0.4M	$0.4M	$0.5M	$0.6M	$0.6M	$0.7M	$0.7M	$0.8M	**$5.3M**
Total Taxes	$0.9M	$0.9M	$0.9M	$0.9M	$0.9M	$0.9M	$0.9M	$0.9M	$0.9M	$0.9M	**$8.7M**

Based on constant 2014 dollars, tax rates and assessment, the City's grant amount would total $3.3 million for the entirety of the program (based on a maximum of 1.5 million square feet of gross floor area).

3. Development Charges Grant/Reduction

It is proposed that the City-wide development charges rate be frozen at the August 2013 rate of $20.35 per square metre for a five year period.

Charge	Current Rate ($/sq. m)	CIP Reduced Rate ($/sq. m)	Reduction ($/sq. m)	Reduction (%)	Reduction ($2015)	Reduction Per Year Over 5 Years ($2015)
City-Wide Office DC	$53.04	$20.35	$32.69	62%	$4,556,000	$911,200

This reduction would lead to lost revenue of approximately $4.6 million.

4. Cash-in-Lieu of Parkland

For major offices a 100 per cent cash-in-lieu of parkland exemption would apply. For mixed-use developments, with every 750 sq. ft. of major office space developed, one unit of high density residential located on the same land parcel would be subject to a reduced rate of $4,100 per unit compared to the current rate of $8,500 per unit.

5. Parking Requirements

It is proposed that major offices with at least two storeys of below grade parking would be allowed to have two storeys of podium, or above grade, parking with no effect on Section 37 contributions for increased height.

C. WHAT IF THE REGION WAS TO MIRROR THE CITY OF VAUGHAN'S POLICIES?

The likelihood of attracting major office development to the VMC in the short-term would undoubtedly improve if the Region (and Province) adopted similar CIP policies. Furthermore, stakeholders have also indicated the perception and marketing of the VMC as a viable office market would also improve through the CIP process.

While Parking and Parkland are City responsibilities, the governing legislation would permit the Region to adopt similar TIEG and development charges policies as the City. Using the City's assumptions, the estimated revenue losses that would be incurred by the Region, based on a similar program, are described below:

1. Tax Increment Equivalent Grants (TIEG)

The financial impact of a Regional TIEG for the VMC has been estimated using the same assumptions as the City's program. Based on 1.5 million square feet of office space and Regional tax rates, the grant amount would total $5.7 million for the entirety of the program in constant 2014 dollars. However, the Region would still recover a total of $9.1 million in net taxes after grants are deducted.

Year	**1**	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**10-Year**
Grant Amount	70%	63%	56%	49%	42%	35%	28%	21%	14%	7%	**39%**
Net Taxes	30%	37%	44%	51%	58%	65%	72%	79%	86%	93%	**61%**
Grant Amount	$1.0M	$0.9M	$0.8M	$0.7M	$0.6M	$0.5M	$0.4M	$0.3M	$0.2M	$0.1M	**$5.7M**
Net Taxes	$0.4M	$0.6M	$0.7M	$0.8M	$0.9M	$1.0M	$1.1M	$1.2M	$1.3M	$1.4M	**$9.1M**
Total Taxes	$1.5M	$1.5M	$1.5M	$1.5M	$1.5M	$1.5M	$1.5M	$1.5M	$1.5M	$1.5M	**$14.9M**

Stated differently, within six years of an office building's construction, net taxes paid will exceed the grant amount issued.

2. Development Charges Grant/Reduction

Two approaches were used to estimate the impact of a Regional reduction to office development charges. If a commensurate percentage-based reduction (62 per cent) was to apply, it would result in lost revenue in the order of $18.1 million. Alternatively, the Region could match the City's quantum value deduction ($32.69) which would result in $4.6 million in lost revenue.

Approach	Current Rate ($/sq. m)	CIP Reduced Rate ($/sq. m)	Reduction ($/sq. m)	Reduction (%)	Reduction ($2015)	Reduction Per Year Over 5 Years ($2015)
Regional Office DC Based on % Reduction	$210.44	$80.74	$129.70	62%	$18,074,000	$3,614,800
Regional Office DC Based on Value Reduction	$210.44	$177.75	$32.69	16%	$4,556,000	$911,200

The percentage-based deduction would obviously have a greater impact on development decisions.

We trust the above is of assistance and we would be pleased to address any questions on the content of the memorandum.